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FM SECSTATE WASHDC

TO AMEMBASSY CANBERRA PRIORITY

INFO AMEMBASSY WELLINGTON PRIORITY

C O N F I D E N T I A L STATE 226329

E.O11652: GDS

TAGS: ETRD, EAGR

SUBJECT: MAYAGUEZ MEAT IMPORT ISSUE: RECENT US/AUSTRALIAN DEVELOPMENTS.

REFS: STATE 205545, GREENWALD/SMITH MEMCON AUGUST 16 NOTAL,
STATE 203583, BOSWORTH/SMITH MEMCON, JULY 28 NOTAL,
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1. DEVELOPMENTS SINCE THE AUGUST 17 ANNOUNCEMENT OF USDA'S PROPOSED REGULATION TO CURTAIL THE USE OF THE MAYAGUEZ FOREIGN TRADE ZONE TO EVADE THE INTENTION OF THE VOLUNTARY RESTRAINT PROGRAM HAVE CENTERED ON THE AUSTRALIAN ELEMENT. THIS COURSE OF EVENTS IS POTENTIALLY DAMAGING FOR US/AUSTRALIAN RELATIONS. THE EMBASSY ACCORDINGLY SHOULD BE AWARE OF DEVELOPMENTS AS SEEN FROM THE US PERSPECTIVE.

2. FOLLOWING THE PUBLICATION IN THE FEDERAL REGISTER OF THE PROPOSED REGULATION (WHICH HAS BEEN CHALLENGED IN COURT), THE AUSTRALIAN EMBASSY ON AUGUST 30 SUBMITTED AN AIDE
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MEMOIRE WHICH FIRST NOTED THAT THE REGULATION, IF IMPL-

MENTED, WOULD VIOLATE THE TERMS OF THE US/AUSTRALIAN VRA AND, SECOND, SUGGESTED A COMPROMISE SOLUTION TO THE PROBLEM. PROVIDED THAT THE USG ALLOW TWO SHIPS THEN AT SEA (CARRYING A TOTAL OF 13.6 MILLION POUNDS) AND ONE THEN LOADING

(THE BANAGRANDE, SCHEDULED FOR 10.6 MILLION POUNDS) TO ENTER MAYAGUEZ FREE OF RESTRAINT, "THE AUSTRALIAN GOVERNMENT ... IS PREPARED TO CONSIDER ACTION TO CONTROL FUTURE SHIPMENTS TO FOREIGN TRADE ZONES AND TO DISCUSS WITH US AUTHORITIES AN AMENDMENT TO THE RESTRAINT AGREEMENT ..."

3. SEVERAL OTHER DEVELOPMENTS OCCURRING AT APPROXIMATELY THE SAME TIME HAVE AFFECTED THE UNFOLDING OF THE AUSTRALIAN PROPOSAL. FIRST SENATOR CURTIS HAS INTRODUCED A RESOLUTION THAT WOULD ENACT INTO LAW THE PROVISIONS OF THE USDA PROPOSED REGULATION. SECOND, NEW SHIPMENT DATA FROM CANADA COMBINED WITH THE POSSIBLE EFFECT OF THE MEXICAN DEVALUATION HAVE PUSHED LIKELY MEAT IMPORTS CLOSER TO THE LEVEL THAT WOULD TRIGGER QUOTAS UNDER THE MEAT IMPORT ACT. THE AUSTRALIAN EMBASSY HAS FOLLOWED BOTH DEVELOPMENTS AND PRESUMABLY HAS ADVISED CANBERRA OF THE NEGATIVE IMPACT OF BOTH LEGISLATION AND QUOTAS. THEY ARE ALSO AWARE OF THE LITIGATION THAT HAS BEEN TRIGGERED BY THE PROPOSED REGULATION.

4. FOLLOWING THE SUBMISSION OF THE AIDE MEMOIRE, AUSTRALIAN EMBASSY OFFICIALS SMITH AND THOMPSON CALLED ON DEPUTY ASSISTANT SECRETARY KATZ AUGUST 31, TO DISCUSS THEIR PROPOSAL. AFTER MEETING WITH AN INITIALLY NEGATIVE US RESPONSE, SMITH SAID THAT "IF YOU CAN HANDLE THE PROBLEM OF QUOTAS AND THE CURTIS AMENDMENT, I THINK I CAN PERSUADE THE GOVERNMENT OF AUSTRALIA TO SETTLE FOR TWO SHIPS.' ON THAT BASIS THE DEPARTMENT OBTAINED INTERAGENCY SUPPORT FOR A COMPROMISE THAT INVOLVED AMENDING ALL RESTRAINT AGREEMENTS TO INCLUDE MEAT SHIPPED TO FOREIGN TRADE ZONES AND PERMITTING 13.6 MILLION POUNDS OF AUSTRALIAN MEAT TO ENTER PRIOR TO THE ADOPTION OF SUCH AMENDMENTS. THE AUSTRALIAN EMBASSY WAS NOTIFIED OF OUR ABILITY TO ACCEPT SUCH A COMPROMISE AND SO ADVISED CANBERRA SEPTEMBER 3. ON SEPTEMBER 10 SMITH RETURNED TO CONVEY A POSITION
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COMPLETELY AT VARIANCE WITH THAT CONTAINED IN THE AIDE MEMOIRE. QUESTIONING WHY THE AUSTRALIAN GOVERNMENT SHOULD BE EXPECTED TO SOLVE US POLITICAL PROBLEMS, HE SAID THAT CANBERRA HAD ONLY AUTHORIZED HIM TO PROMISE THAT NO MEAT WOULD BE SHIPPED TO MAYAGUEZ WHILE LITIGATION WAS PENDING. HE ALSO HINTED THAT THE AUSTRALIAN POSITION MIGHT SOFTEN IF MEAT FROM THE THIRD SHIP, THE BANAGRANDE, WERE ALLOWED TO ENTER THE US VIA MAYAGUEZ FREE OF RESTRAINT. SMITH WAS

TOLD THAT THE NEW PROPOSAL WAS COMPLETELY UNACCEPTABLE. IT WAS EXPLAINED THAT THE PURPOSE OF AMENDING THE AGREEMENTS WAS TO AVOID THE PROBLEMS OF LITIGATION. WITH REGARD TO THE POSSIBILITY OF INCLUDING THE BANAGRANDE IN A COMPROMISE, HE WAS GIVEN A SIMILAR NEGATIVE ANSWER. WE

HAD ASSUMED THAT SMITH, IN MAKING THE TWO SHIP PROPOSAL, HAD ACTED WITH SOME AUTHORITY, AND ACCORDINGLY HAD DISCUSSED THE COMPROMISE AT THE HIGHEST POLITICAL LEVELS AND WITH INDUSTRY REPRESENTATIVES. FACED WITH THIS RESPONSE, SMITH AGAIN CABLED CANBERRA AND ON SEPTEMBER 13 PRESENTED STILL ANOTHER "NEW" PROPOSAL. IF THE US WOULD ALLOW THE BANAGRANDE TO ENTER FREE OF RESTRAINT THE GOA WOULD AMEND ITS RESTRAINT AGREEMENT. SMITH HAS THUS GONE FULL CIRCLE. ONCE AGAIN HE WAS TOLD THAT THE ONLY SETTLEMENT THAT THE USG COULD ACCEPT WAS THE INITIAL COMPROMISE INVOLVING TWO SHIPS AND AMENDMENT TO THE AGREEMENT. SMITH WAS REQUESTED TO SEEK FURTHER INSTRUCTIONS ON AN URGENT BASIS.

5. A RELATIVELY MINOR ISSUES HAS THUS ESCALATED TO WHERE IT HAS THE POTENTIAL FOR SOURING US/AUSTRALIAN RELATIONS AT BOTH THE OFFICIAL AND PRIVATE SECTOR LEVELS. THE MAYAGUEZ FOREIGN TRADE ZONE IS A LOOP HOLE AKIN TO A TAX LOOP HOLE AND WILL BE CLOSED. THE ONLY QUESTION HAS BEEN WHEN AND HOW. THE AUSTRALIAN EMBASSY HAS UNDERSTOOD THIS FACT. THEIR UNDERSTANDING IS UNDERSCORED BY THEIR INSISTENCE ON INCLUDING THE BANAGRANDE. THEY DO NOT EXPECT THE LOOP HOLE TO REMAIN OPEN AND WISH TO TAKE MAXIMUM ADVANTAGE OF ITS LAST DAYS. THE EMBASSY ALSO APPEARS TO UNDERSTAND THAT IT IS IN EVERYONE'S INTEREST TO CLOSE THE LOOP HOLE IN A MANNER THAT PRESERVES MAXIMUM FLEXIBILITY, I.E. WITH NO LEGISLATION AND NO QUOTAS. SUCH A SOLUTION IS IN THE MATERIAL INTEREST OF AUSTRALIA. THE
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FACT THAT THE AUSTRALIAN EMBASSY HAS REVERSED ITS POSITION DOES NOT RULE OUT A COMPROMISE SETTLEMENT. THE REVERSAL HAS EXACERBATED RELATIONS, HOWEVER, AND WILL MAKE FAILURE TO REACH A SETTLEMENT ALL THE MORE SOUR.

6. THE EMBASSY SHOULD ALSO BE AWARE OF THE POTENTIAL IMPACT THE AUSTRALIAN DEMANDS CAN HAVE ON OUR RELATIONS WITH NEW ZEALAND AND CENTRAL AMERICAN PARTICIPANTS IN THE MEAT RESTRAINT PROGRAM. FOUR OF THESE COUNTRIES HAVE SURPLUS PRODUCTION AND HAVE RECENTLY REQUESTED THAT WE INCREASE THEIR RESTRAINT LEVELS. THEY COULD NOT BE ACCOMMODATED EVEN THOUGH WHAT EACH WAS SEEKING WAS LESS THAN THE TOTAL CARRIED BY THE BANAGRANDE. MOREOVER, CUSTOMS ACTIONS HAVE BEEN DIRECTED AT TWO OF THEM TO PREVENT THEIR EXCEEDING RESTRAINT LEVELS. IN BRIEF, WE HAVE INCURRED FOREIGN

RELATIONS PROBLEMS WITH FRIENDLY GOVERNMENTS OVER RELATIVE-
LY SMALL AMOUNTS OF MEAT. THOSE GOVERNMENTS HAVE NOT EVEN
ATTEMPTED TO USE THE MAYAGUEZ CIRCUMVENTION ROUTE. IF THEY
NOW FIND WE ACCEDE TO ALL AUSTRALIAN DEMANDS OR THAT QUOTAS
ARE TRIGGERED BECAUSE OF AUSTRALIA OUR RELATIONS WILL BE
EVEN FURTHER EXACERBATED. ROBINSON

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